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West Texas discovery puts Apache back in game; Strategy of aggressive exploration goes against grain, analysts say

David Hunn

1,075 words

9 September 2016

Houston Chronicle

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In the height of Texas' shale revolution, Houston oil exploration company Apache Corp. had a rough time keeping up with competitors.

The firm was slow to adopt changes in drilling technology and missed opportunities to acquire prime oil fields. As the oil and gas industry boomed in recent years, Apache's production, reserves, revenues and stock prices dwindled.

Apache's discovery of a new oil and gas field in a remote strip of West Texas' Permian Basin signals that company is back in the game, looking to position itself for new growth as the oil prices and the industry recover, analysts said. The new field, named Alpine High, is estimated to hold oil and gas equivalent to about 15 billion barrels of oil.

"This is certainly the boldest statement in the past year from an onshore player," said Robert Clarke, a director at market research firm Wood Mackenzie.

At first glance, the Alpine High discovery appears contrarian, an aggressive move when most of the industry is cutting back on exploration, focusing on wells that are proven producers and conserving cash as oil and gas prices remain stubbornly low. It also comes as increasing concerns about climate change and tougher regulations are raising questions about how much fossil fuels companies will be able to take out of the ground.

Analysts said, however, that Apache had little choice but to become more aggressive after years of underperforming. While the company's revenues more than doubled from \$5.3 billion in 2004 to \$12 billion in 2010, they subsequently stalled even as the energy boom took off. By 2014, the peak of the oil boom, Apache's oil production had increased modestly from a decade earlier, to 299,000 barrels a day from 231,000 a decade earlier, but the growth lagged its competitors significantly.

Oil reserves fall

Smaller companies began to catch up. EOG Resources of Houston, for example, increased production 10-fold, from 27,000 barrels of oil per day in 2004 to 289,000 a decade later.

Apache's oil reserves, meanwhile, fell by nearly half from 3 billion barrels in 2010 to 1.6 billion last year. Reserves are key components of energy companies' value, used by the firms to secure loans and Wall Street to measure their future.

Apache's stock plunged from \$119 a share at the end of 2010 to less than \$45 at the end of last year.

Apache "consistently disappointed the market," said Hassan Eltorie, an analyst at IHS Markit. "They

couldn't grow production fast enough. They didn't do as well as with shale."

To right the ship, Apache's former chief executive, G. Steven Farris, began selling assets, dumping oil and gas land in Argentina and Australia, liquefied natural gas projects in Australia and Canada, and older holdings in the Gulf of Mexico. It kept property in Egypt and the North Sea, but really refocused on U.S. oil and gas production.

When John Christmann succeeded Farris in January 2015, he came in with a new idea. Christmann wanted to spend money on exploration, and not simply buy up smaller companies to gain access to reserves, as so many of Apache's competitors were doing in the downturn.

Strategy pays off

Alpine High is part of Apache's strategy to rebuild oil and gas reserves and, correspondingly, get investors to feel better about its growth prospects, analysts said. "This is the tonic it needed to wake it up," said Pearce Hammond, an analyst at investment banking firm Simmons & Company International.

To succeed in shale fields, analysts said, companies need to get in early and buy land cheap, like Houston-based ConocoPhillips and EOG did in South Texas' Eagle Ford. Apache spent two years acquiring the land for Alpine High, paying an average of \$1,300 an acre, the company said. In comparison, oil companies have recently spent as much as \$40,000 or even \$60,000 an acre for Permian land in the more established Midland basin, well north of Apache's new find.

Alpine is in the far southern section of the Permian's Delaware basin, primarily in Reeves County, south of the eastern corner of New Mexico near the Davis Mountains. While other exploration companies doubted the area held much oil and gas, Christmann said his engineers found a geological formation - essentially a shelf of shale rock - that they believed could hold significant reserves. They used seismic imaging technology, which sends sound waves to identify potential deposits, to seal their beliefs.

Apache then began methodically piecing together 307,000 contiguous acres.

The company said on Thursday that it's too early to speculate on the impact of Alpine High on booked reserves.

Oil companies drill multiple test wells, perform seismic testing and study underground maps to estimate reserves that they can book. They verify findings with auditors, and report them in regulatory filings to the Securities and Exchange Commission.

13 percent recovery

Apache's recovery estimates for Alpine High - how much oil and gas they think they can get out of the ground there - are above industry standards, analysts noted. Typically, companies recover 6 to 12 percent of oil and gas in a field; Apache said it expected to recover 13 percent.

Analysts said they are not convinced Apache can deliver.

"There's certainly potential to Alpine High, but I'm hesitant to attribute lots of value, or say it's the next big thing, until I see more data points," said Andy McConn, another analyst at Wood Mackenzie.

The company said in a statement that Alpine High will prove to be "incredibly economic even at today's low prices" and it is hopeful that it will be able to book significant reserves.

"What becomes evident following a discovery like this," the company wrote, "is that there are still abundant resources still to be discovered."

Shares of Apache rose for the second straight day following the company's announcement, or 14 percent

in total. They closed at \$59.05 on Thursday, up \$3.92, or 7 percent on the day.

david.hunn@chron.com

twitter.com/davidhunn

Apache Corp. Apache's Alpine High acreage lies in remote West Texas. While other companies doubted the area held much oil and gas, Apache engineers found a geological formation that they believed could hold significant reserves.

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